

Governor's Capital Transportation Funding Working Group

I. INTRODUCTION

This report documents the work of the Governor's Capital Transportation Funding Working Group (the Working Group) from December 2005 through January 31, 2006. The purpose of the Working Group was to assess the impact of the fall 2005 deferral of transportation projects worth about \$130 million, representing about 20 percent of the projects in the Biennial Capital Work Plan for Fiscal Years 2006-2007 (the Capital Work Plan) of the Maine Department of Transportation (MaineDOT), and to make recommendations to mitigate this impact. If left unresolved, this deferral will impact 143 projects in 112 communities across Maine.

A. Background

In March 2005, MaineDOT published an *interim* version of its Capital Work Plan. The plan was published on an *interim* basis because of unprecedented funding uncertainties that existed at that time including a long delay in reauthorization of the federal surface transportation funding act, and pending state legislative action on the state Highway Fund budget, fuel-tax indexing, and state bonding.

In the summer of 2005, Congress passed the reauthorization act, known as "SAFETEA-LU". This law sets federal funding ceilings for highways and transit covering the five year period from October 1, 2004 (10 months before passage of the act) through September 30, 2009. It also included unprecedented levels of directives for funding specific, Congressionally-designated High Priority Projects, sometimes referred to as earmarking. On the state level, the Highway Fund budget was approved, fuel-tax indexing was preserved, and a state transportation bond was enacted by the Legislature and later approved by Maine voters. Meanwhile, Hurricanes Katrina and Rita battered the Gulf Coast, spiking energy and constructions costs at a time when demand for construction materials (asphalt, steel, concrete, fuel) by countries like China and India already had been driving prices higher. Further, on-going communications with the Federal Highway Administration in the fall of 2005 continued to shed light on cash flow challenges in the federal reauthorization bill.

B. The Deferral of \$130 Million in Projects

With this new information, it became apparent that MaineDOT had to revise its Capital Work Plan. MaineDOT increased project cost estimates and reduced available capital cash flow to reflect the new realities. After carefully weighing a number of factors including safety, project deliverability, federal funding restrictions, and long-standing resource allocation policies aimed at taking care of existing infrastructure before building additional capacity, MaineDOT in the fall of 2005 deferred projects worth about \$130 million, representing 143 projects in 112

communities across Maine – about 20 percent of the projects in its Capital Work Plan. For more information on the factors causing the deferrals and the deferral criteria, see Appendix A.

C. The Charge to Respond

Given the impact of transportation investment on safety, the economy, and the day-to-day lives of Maine travelers, public officials and stakeholders voiced disappointment to MaineDOT and transportation decision-makers. On December 1, 2005, Governor John Baldacci described this deferral as “unacceptable”, and convened this Working Group, a bi-partisan team of knowledgeable legislators, industry and business leaders, municipal officials and other stakeholders. (For a list of Working Group members, see Appendix B.) The Working Group was charged with delivering to the Governor and the Transportation Committee by the end of January 2006 a report that includes an assessment of the impact of the deferral and recommendations to restore as many of the deferred projects as the Working Group considers necessary and prudent to support the state’s transportation system and foster economic growth.

D. Working Group and Subgroup Proceedings

On December 15, 2005, the Working Group was convened by Senator Dennis Damon, Senate Chair of the Transportation Committee. At this initial meeting, Governor Baldacci addressed the Working Group members and the group received an in-depth briefing on the scope of the challenge. Due to the short time frame available and the holiday season, the Group decided to form three subgroups so that work on key areas could proceed in parallel and report back to the full Working Group. First, an Impact Assessment Subgroup was tasked to develop an analysis of the overall impact of the project deferrals on the transportation system, Maine’s communities, and state and local economies. Second, a Value Engineering Subgroup was tasked to reduce the amount of funding needed by stretching existing resources by working with the construction and engineering consulting industry and municipal officials to examine opportunities for program efficiency that would not jeopardize essential safety or quality. Finally, a Funding Alternatives subgroup was tasked to identify available funding alternatives that would be appropriate to meet the level of need identified. Brief summaries of the findings of each of the three subgroups are set forth below.

1. Impact Assessment Subgroup.

This subgroup concluded that the project deferrals would have widespread and significant impacts, but that much more in-depth study would be required in order to attribute accurate cost estimates to the various “elements of impact.” In its report, set forth in full in Section III below, this subgroup analyzed impacts on employment, highway reconstruction, bridges, and pavement preservation. The deferral of projects would be a significant blow to private-sector employment in the construction and engineering/design industries. The direct impacts of job-loss would be accompanied by secondary and tertiary job losses, as well as concurrent threats to the stability of transportation-related businesses and their work forces. MaineDOT’s highway reconstruction efforts would be severely affected, with \$82 million of the total projects in this area. Inflation over the deferral period would result in higher construction costs for future highway programs, highway safety efforts would be curtailed,

property-acquisition costs would escalate, future projects would be further delayed, municipal road budgets would be put under even greater strain, and the costs to the economy of seasonally posting roads against heavy-truck traffic would grow. MaineDOT's bridge improvements would be similarly affected by inflation and the department's bridge maintenance activities would be redirected from prevention to urgent repair, deepening an observed trend of an increasing proportion of state transportation investments directed towards bridge needs. Preservation of pavement on properly constructed roadways would also suffer disproportionate impacts of inflation, as projects are put off.

2. Value Engineering Subgroup.

This Subgroup generated recommendations in the areas of bridge improvements, high-way improvements, paving, and contracting. The analysis, included in full in Section IV below, concluded that \$10 million could be contributed toward the deferred projects through various cost saving measures and efficiencies. Bridge recommendations include greater emphasis on rehabilitation versus bridge replacement, elimination of temporary structures by using "get in and get out" strategies, a temporary suspension of painting treatments, and possible changes in specifications. Highway-project engineering recommendations include adhering to existing road alignments, more road closures during construction, and scrutiny of approaches to utility relocation and guardrails. Highway paving recommendations focus on alternative treatments and modification of specifications regarding QC/QA, work restrictions, and other requirements. Recommendations concerning contracting include increasing the local administration of projects and revising various aspects of the bidding process. While the subgroup believes that meaningful cost savings can be derived from engineering review, it also acknowledges the potential of quality compromises when standards are changed, project control is delegated, and greater risk is assumed by the state.

3. Funding Alternatives Subgroup.

This subgroup analyzed the scope of the immediate challenge and, with a strong contribution of research by the Maine Turnpike Authority and its bonding experts, identified the funding options available in the most fundamental terms, and also recommended to the full Working Group a range of funding levels. Its full report is set forth in Section V below.

This subgroup determined that due to the long-term, on-going nature of developing transportation infrastructure projects, the scope of the immediate challenge is less than the original \$130 million deferral amount. That is, as with any on-going production operation, the suspension of operations – in this case the stopping of work on certain projects - means that output will be reduced. More specifically, in the fall of 2005 work on the deferred projects was suspended and will not resume if and until the recommendations of this report are implemented – which will be spring of 2006 at the earliest. This means that certain projects cannot be delivered by June 30, 2007 even if additional funding is

provided this spring, which in turn means that they can wait for funding in the next regular budgeting cycle in the FY2008-FY2009 biennium. MaineDOT estimates the cost of projects that can be pushed into and funded in the next biennium at approximately \$30 million. After reducing the original \$130 million deferral amount by this \$30 million, and after further reducing the need amount by the \$10 million in savings that the Value Engineering Subgroup determined was feasible, this means the scope of the immediate need is about \$90 million.

The Funding Alternatives Subgroup recommended that this amount should be raised as follows.

- Cash Resources in the range of \$20 to \$30 million should be raised from a combination of Highway Fund and General Fund sources.
- Bonding should be utilized to address the remainder of the need including \$40 million of federally authorized GARVEE bonding and \$20 to \$30 million of State General Obligation or Revenue Bonds.

With the benefit of the three subgroup reports, the full Working Group met on January 23rd and January 25th to discuss these findings, draw conclusions, and make recommendations. After lengthy and wide-ranging discussions, the Working Group respectfully provides the following conclusions and recommendations.